COMMONWEALTH ELECTRIC COMPANY d/b/a NSTAR ELECTRIC

Testimony of Bryant K. Robinson

D.T.E. 01-25

Q. Mr. Robinson, please state your name and business address.

A. My name is Bryant K. Robinson. My business address is 800 Boylston Street, Boston, Massachusetts 02199.

Q. By whom are you employed and in what capacity?

A. I am Manager of Revenue Requirements for the regulated operating companies of NSTAR. In this capacity, I am responsible for all regulatory filings concerning the financial requirements of Boston Edison Company ("Boston Edison"), Cambridge Electric Light Company ("Cambridge), Commonwealth Electric Company ("Commonwealth" or the "Company") (collectively, "NSTAR Electric") and Commonwealth Gas Company.

Q. Please briefly summarize your educational and business experience.

A. I graduated from the University of Massachusetts – Dartmouth in 1978 earning a Bachelor's degree in Finance and from Northeastern University in 1988 with a Master's degree in Business Administration. For the years 1978 to 1983, I worked in the banking industry with State Street Bank and Trust Company and Boston Safe Deposit and Trust Company. In 1983, I joined Boston Edison's Audit Department, and held Staff Auditor and Senior Auditor positions. In 1989, I joined the Revenue Requirements Department as a Financial Research Analyst. Subsequently, I have held positions as Senior Financial Research Analyst, Senior Financial Consultant and Principal Financial Analyst.

Q. Have you previously testified in proceedings before this or any other regulatory commissions?

A. Yes, I testified in Boston Edison's most recent Transition Charge true-up proceedings, D.T.E. 98-111 and D.T.E. 99-107. In addition, I presented cost of service testimony regarding the wholesale fuel adjustment clause to the Federal Energy Regulatory Commission ("FERC").

Q. What is the purpose of your testimony?

A. I am testifying regarding NSTAR Electric's proposed methodology for determining the price of streetlights owned by Commonwealth in the towns of Edgartown, Harwich and Sandwich (the "Towns").

Q. Why is the Company required to determine the price of streetlights in the Towns?

A. The Towns are seeking to purchase Commonwealth's streetlight plant located within the Town's borders, pursuant to provisions of the Electric Restructuring Act of 1997 (the "Act"), codified as G.L. c. 164, § 34A. It is my understanding that, under the statute, municipalities are able to purchase streetlights in their city or town from electric companies, but must compensate electric companies for the lighting equipment used for providing streetlighting service.

Q. What is the standard in G.L. c. 164, § 34A for communities wishing to purchase streetlights owned by distribution companies?

A. Subsection (b) of this statute states that "any municipality exercising the option to convert its streetlighting service…shall be required to compensate the electric company for its unamortized investment, net of any salvage value obtained by the electric company in the municipality as of the date the electric company receives notice of such exercise…”.

Q. Has the Company changed its method of valuation since the Towns approached the Company to purchase streetlighting equipment?

A. Yes. NSTAR Electric’s method of valuation of streetlighting equipment for implementing the provisions of G.L. c. 164, § 34A has evolved since the passage of the Act. As indicated by Mr. Aikman, utilities, including NSTAR Electric, depreciate utility plant in service on a group basis for accounting and ratemaking purposes because of the impracticability of separately depreciating each unit of depreciable plant separately. Group depreciation complicates the proper valuation of individual plant units when a subset of plant is severed from the group, as it must be when it is sold and valued in accordance G.L. c. 164, § 34A. This complication has caused NSTAR Electric to refine the methodology it employs in performing valuations of streetlighting equipment under the Act.

Q. How has the valuation methodology for the streetlighting changed for NSTAR Electric?

A. Two methodologies were employed by NSTAR Electric — one for Boston Edison and the other for Cambridge/Commonwealth. Unfortunately, both had problems and produced valuations that did not properly account for accumulated depreciation attributed to streetlighting property. In negotiations with individual municipalities, these flaws became apparent and NSTAR Electric improved the valuation methodology to correct the flaws. The corrected valuation and methodology is reflected in the latest valuations, which were provided to the Towns on December 11, 2000. A copy of the valuations are appended hereto as Exhibit BKR-2.

Q. How did NSTAR Electric initially value streetlighting property for purposes of implementing the Act?

A. The methodologies first used by NSTAR Electric overly simplified the depreciation process. For Cambridge/Commonwealth the depreciation rate was derived by dividing 100 percent by the average service life of 14 years. The 14-year average service life is a subset of the Department-approved (D.P.U. 90-331) depreciation rate for the streetlighting property group. The derived depreciation rate was then applied to the streetlighting plant in service by vintage in each municipality. If the accumulated depreciation for any vintage exceeded the original cost of the plant, the vintage was valued at zero.

The methodology applied by Boston Edison would start with the vintage of the plant and apply the Department-approved (D.P.U./D.T.E. 96-23 and 96-100) composite depreciation rate for all plant in service to original cost from the date of placement in service until the date of valuation. In this methodology, the accumulated depreciation reserve was established, where, in addition to depreciation expense, cost of removal, salvage and retirement costs were debited or credited to the reserve. This methodology allowed the depreciation reserve to exceed the original cost of the plant, so that the depreciated value could be less than zero. If the net values for all vintages of the plant group computed this way were below zero, the total plant to be sold would be valued at $1.

Q. What was flawed about these methodologies?

A. As described by Mr. Aikman, the average-life group depreciation method takes into account property units that survive beyond the average life to compensate for the under-depreciation of units that were retired before they reached their average lives. This means that the overly simplified calculations resulting from applying the depreciation rates to the specific property in a municipality, do not result in the correct amount of depreciation reserve attributable for that property group. Said another way, if this approach were applied individually to each unit of property, the sum would not equal the total depreciation reserve for the property group.

Q. Has the Company corrected this flaw in its methodology?

A. Yes. As shown in Exhibit BRK-2, the Company computed the accumulated depreciation by allocating the total book depreciation reserve for the streetlighting property group. The allocation was accomplished by determining a theoretical reserve for Commonwealth's streetlights, as more fully described in Attachment CLC-1-6, which was provided in response to Information Request CLC-1-6.

Q. Please describe the Company's assumptions in determining its unamortized investment in its streetlight plant in the Towns.

A. The unamortized investment in its streetlight plant in the Towns is the original cost of the streetlight plant in service, less accumulated depreciation, computed as described above.

Q. Is this methodology different from that used by Boston Edison in D.T.E. 98-89?

A. Yes. As discussed above, the methodology previously used by Boston Edison, and applied for the streetlight plant sold to Lexington and Acton, inappropriately computed accumulated depreciation.

Q. Was this issue addressed in D.T.E. 98-89?

A. It is my understanding that the contested issue in the Lexington and Acton case related to whether it was proper to compute accumulated depreciation for streetlighting based on the company-wide, composite rate or a higher depreciation rate for the streetlighting plant group. The newer methodology adopted by NSTAR Electric is based on the depreciation rate applied to the streetlighting plant group, and is therefore consistent with the Department's decision in D.T.E. 98-89. Because NSTAR Electric had not reevaluated the depreciation methodology for the Lexington and Acton case, the approach presented in this proceeding was not addressed in D.T.E. 98-89. Once approved by the Department, NSTAR Electric would use the approach presented in this proceeding in the future for all municipalities seeking a valuation of streetlight plant pursuant to G.L. c. 164, § 34A.

Q. Does this conclude your testimony?

A. Yes, it does.

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